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NOMINATION OF MARTIN S. FELDSTEIN

NOVEMBER 15, 1982.—Ordered to be printed

Mr. GARN, from the Committee on Banking, Housing, and Urban Affairs, submitted the following

REPORT

together with

MINORITY VIEWS

The Committee on Banking, Housing, and Urban Affairs, to which was referred the nomination of Martin S. Feldstein to be a member of the Council of Economic Advisers, having considered the same, reports favorably thereon and recommends that the nomination be confirmed.

COMMITTEE ACTION

The nomination of Martin S. Feldstein to be a member of the Council of Economic Advisers was submitted to the Senate by President Reagan on September 14, 1982, and was referred to the Committee on the same day. Dr. Feldstein testified before the committee on September 22, 1982.

At its meeting on September 30, 1982, the Committee voted 7 to 5 to report the Feldstein nomination favorably to the Senate. Senators who voted in favor were: Garn, Tower, Heinz, Lugar, D'Amato, Chafee, and Brady. Those Senators voting in the negative were: Riegle, Proxmire, Cranston, Dixon, and Sasser.

COMMITTEE COMMENTS

On September 14, 1982, President Reagan nominated Dr. Martin S. Feldstein to be a member of the Council of Economic Advisers. The President also stated his intent to appoint Dr. Feldstein as chairman of the Council.

The Employment Act of 1946 created the Council of Economic Advisers and stated that the Chairman of the Council, along with the other 2 members "shall be a person who as a result of his training,

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experience and attainments is exceptionally qualified to analyze and interpret economic developments, to appraise programs and activities of the government, and to formulate and recommend national economic policy and to promote employment, production and purchasing power under free competitive enterprise." After establishing the qualifications of the advisers, the Employment Act sets forth in the Council's charter five specific duties for the advisers to accomplish. They are:

1. To assist and advise the President in the preparation of (a yearly economic report to Congress);
2. To gather timely and authoritative information;
3. To appraise the various programs and activities of the Federal Government;
4. To develop and recommend to the President national economic policies to foster and promote free competitive enterprise to avoid economic fluctuations or to diminish the effects thereof and to maintain employment, production and purchasing power; and
5. To make and furnish studies, reports thereon and recommendations . . . as the President may request.

Dr. Feldstein qualifies eminently under these standards to serve as Chairman of the Council and to perform the duties listed in the charter. He has a distinguished record of intellectual, academic and professional accomplishments which have prepared him well for the demands of that position. Dr. Feldstein's achievements include the following: He completed a B.A. degree at Harvard College on a Harvard scholarship, and earned B. Litt., M. Litt. and D. Ph. degrees in economics from Oxford University on a Fulbright Scholarship. While a student in England working for his doctorate, he lectured at Oxford, and published 15 monographs in scholarly journals analyzing the social and economic aspects of the British national health care system. He began teaching at Harvard University as an assistant professor and was granted a full tenured professorship there after only 2 years. He has since had a distinguished career at Harvard, spanning 15 years, as Professor of Economics.

In 1977, at age 38, Dr. Feldstein was awarded the John Bates Clark Medal, awarded to the most promising American economist under 40 by the American Economic Association. Since 1977, Dr. Feldstein has presided over the prestigious National Bureau of Economic Research, a private non-partisan, non-profit organization which sponsors and publishes the writings of economic scholars from such respected universities as Yale, Chicago, Massachusetts Institute of Technology, Harvard, and Stanford, and conducts economic research on the national economy. He has also served as a private economic consultant, as a lecturer and as a columnist. He is presently a member and leader of the American Economic Association, the Econometric Society, the American Statistical Association and the Royal Economic Society. Through the last year and a half, he has served as a member of the President's Commission on Productivity.

Throughout his outstanding career as professor and student, Dr. Feldstein has published a steady stream of scholarly analytical articles, at least 184 in number, covering a broad spectrum of economic issues in such respected economic journals as the Review of Economic

Studies, the American Economic Review, and the Quarterly Journal of Economics, and has written monthly editorial articles for the Wall Street Journal and a regular column for the Los Angeles Times Syndicate.

In his writings, Dr. Feldstein has been a careful, thoughtful analyst of Federal social programs, monetary policy and of both the spending and tax aspects of fiscal policy. He has published numerous articles discussing such topics as reducing the permanent rate of unemployment, especially teenage unemployment, stimulating private savings, the effects of inflation on the economy, the economic structure of Social Security, monetary policy, hospital and health care costs, the stock market, and macroeconomic analysis. His published studies have been thorough and comprehensive, and are technically and professionally well respected

In his confirmation hearing, Dr. Feldstein disabused the Committee of any notion that he is "anti-housing." This misconception apparently arose because of his concern over inadequate U.S. investment in new factories and equipment, given the relatively low level of savings in our economy. Dr. Feldstein's solution to this problem is not to deny funds for housing but to increase the over-all pool of savings for both housing and productivity-enhancing capital investments. As he told the Committee: "If we have more saving, we'll have more capital formation of all kinds, including housing, as well as business plant and equipment."

Because of his accomplishments, particularly his academic achievements and large body of scholarly publications, Dr. Feldstein is extremely well regarded by his fellow economists. Such economists have said in the press that Dr. Feldstein is a "strong" leader, a "fighter", someone who will give "greater policy importance to the Council of Economic Advisers," a "strong minded, technically competent, pragmatic adviser." The New York Times noted "he is well respected among his fellow economists."

Among his other talents, Dr. Feldstein has a unique human skill, the capacity to reduce arcane technical data and jargon into understandable concepts and clear facts, to make clear and straightforward the mystical and abstruse. Such a skill is necessary for a man who will be a spokesman to the public for the Administration, and adviser to the President and the producer of economic reports for the Congress.

In view of the above, there remains no question that Dr. Feldstein's attainments, experience, and training fully qualify him, by the standards of the Employment Act which established the Council, to serve as the President's Chief Economic Adviser and to meet the goals of the Act of maintaining employment, increasing production and promoting competitive free enterprise. His training at Oxford and Harvard, his attainments of scholarships, fellowships, awards and a huge scholarly publishing record, and his experience as an economics professor, consultant, President of the National Bureau of Economic Research, member of the Presidential Economic Advisory Commission, and member and leader of professional economic societies well qualify him to "advise the President, to appraise Federal programs, to develop national economic policies and to make studies and recommendations" to President Reagan as his chosen adviser. The Committee therefore, recommends that the Senate confirm Dr. Feldstein's nomination.

MINORITY VIEWS OF MESSRS. RIEGLE, PROXMIRE, CRANSTON, SARBANES, DODD, DIXON AND SASSER

We acknowledge Martin S. Feldstein's technical qualifications as an economist, but have deep reservations about his nomination to be Chairman of the Council of Economic Advisers because: (1) his statements suggest that he is insufficiently sensitive to the economic distress facing the country today; and (2) he has not been fully responsive to questions about his views on the major public policy issues raised by the deteriorating economic situation.

The Chairman of the Council of Economic Advisers (CEA) plays a key role in the formulation of the Administration's economic policies. He is the top adviser to the President and chief spokesman for the Administration on the state of the economy. The Chairman is the author of the Economic Report of the President and is directly responsible for the Annual Report of the Council of Economic Advisers.

The Chairman of CEA must be more than a technical adviser to the President. He must provide the Congress and the American people with comprehensive, responsive, and accurate statements on economic conditions and policies. Unlike the President's national security adviser, the CEA Chairman is subject to Senate confirmation and testifies frequently before Congress. The position requires more than an economist whispering advice in the White House. The CEA Chairman must be held accountable for his views and recommendations on economic policy, especially in the present economic situation.

The current state of the economy is the worst since the Great Depression. The jobless rate is the highest since 1940. The report on September unemployment, published by the Department of Labor, confirmed that 11.3 million Americans are out of work, almost three million more than a year ago. These figures do not count the record total of 6.6 million workers who are partially unemployed because their hours have been cut, and the 1.6 million who are so discouraged that they have stopped looking for jobs. When these categories are added to the 10.1 percent officially counted as unemployed, the total becomes more than 17 percent.

Over the last two years, record high interest rates have devastated housing, automobile sales, small business, agriculture, and other interest-rate sensitive sectors of the economy. Business failures during September averaged 549 per week. Factory output and capacity utilization declined again in September—less than 70 percent of U.S. manufacturing capability is being used. Auto sales are at the levels of the early 1960's. Housing starts remain at recession levels despite a flurry of Federally stimulated activity in September. The total Gross National Product in real dollars is less now than it was at the end of 1979.

At his confirmation hearing, Dr. Feldstein was asked whether he thought "today's monetary policy and fiscal policy are in conflict." He

responded: "No, I don't agree with that. I think that the two policies are moving in a coordinated way."

We find that answer incredible. Fiscal policy has been too expansionary (record Federal budget deficits); monetary policy has been too restrictive (record high real interest rates); and the sharp conflict between the two has been tearing the economy apart. A nominee for the Chairmanship of the Council of Economic Advisers ought to address candidly the conflict between fiscal and monetary policies, when all available evidence demonstrates that a conflict exists.

Many economists and businessmen believe the economy would have recovered from the recession and unemployment could have been reduced, instead of increasing, if the Federal Reserve had pursued a less stringent monetary policy and if the budget deficits had been reduced. Feldstein, however, stated: "I generally support the broad thrust of the Federal Reserve Board's approach to the conduct of monetary policy." When asked whether monetary policy was too tight, Feldstein replied:

> I think that monetary policy is correctly focusing on the inflation rate. I think its failure to focus on holding the growth of nominal GNP is the source, one of the key sources, of our increasing inflation in the past and that the monetary policy is appropriately aimed.

Other statements by Dr. Feldstein suggest that he does not recognize the profound economic distress in our Nation. From his response to questions submitted at his confirmation hearing, it is clear that Mr. Feldstein is willing to accept current high levels of unemployment and interest rates in an attempt to eliminate inflation and redirect capital investment. This costly experiment has shown few signs of success, however, and we believe less draconian measures would produce better results.

UNEMPLOYMENT

On May 11, 1982, Feldstein termed the recession "relatively modest thus far." On September 24, 1982, he passed up an opportunity to change his description of the economic situation and, instead, noted that the unemployment increase to that date from "the business cycle peak in July 1981" was "a smaller increase in the unemployment rate than was true on average in the previous recessions." While technically correct as of September 24th (September's 10.1 percent unemployment rate had not been reported), Feldstein's answer is based on the notion that the unemployment rate of 7.2 percent in July 1981 was a "business cycle peak" level. In fact, the average unemployment rate during business cycle peaks in the seven previous expansions in the postwar period was 4.8 percent, 3 percent lower than the July 1981 level.

Feldstein's response can be viewed as part of a pattern of statements intended to minimize public concern (and the Federal Government's responsibility) for extraordinarily high levels of unemployment by portraying high unemployment as a "natural" product of the business cycle. If high unemployment can be shown to be normal, then the Federal Government is relieved of any responsibility to use macroeconomic policy instruments (fiscal and monetary policy) to reduce

unemployment by providing a better mix of policies to stimulate economic growth. Indeed, if 7.2 percent unemployment were a normal level of unemployment for a business cycle peak, the use of stimulative fiscal and monetary policy to reduce unemployment below that level could be inflationary. That is the implication of Feldstein's reply to a question submitted to him by Senator Riegle:

> What do you consider an acceptable level of unemployment? In Michigan, the current unemployment rate, as of August 1982, is 15.2 percent. Is that an acceptable level of unemployment? What, in your opinion, is the "full employment" rate of unemployment?

Feldstein's reply:

> As a long-run goal, the unemployment rate should exceed zero only by the "frictional" unemployment required for healthy job search. It would clearly be better to have a rate lower than that which recently prevailed in Michigan. The "full employment" rate of unemployment is a technical term used by economists to denote the lower unemployment rate which, with the existing structure of labor markets and worker incentives, can be sustained without an increase in inflation. Econometric research generally places this unemployment rate in the 6 to 7 percent range.

Economists disagree, in fact, about the "full employment" or "natural" rate of unemployment, but most choose a lower figure than Feldstein uses. Professor Robert Eisner of Northwestern University says the rate is 4 percent; his colleague, Robert J. Gordon, says 6 percent, as does Walter W. Heller of the University of Minnesota. The consensus estimate, according to Professor Donald Ratajczak of Georgia State University, is 5½ to 6 percent. Feldstein's reference to "the 6 to 7 percent range" is clearly on the high side.

Feldstein's statements imply his support for macroeconomic policies which would tolerate still higher levels of unemployment "temporarily" (presumably levels well above 7 percent) in an attempt to reduce the inflation rate.

Feldstein was quoted in the Washington Post of August 15, 1982 as believing that "if the inflation rate is above its optimal level, the economy should then be deflated to reduce the inflation rate, regardless of the temporary consequences for unemployment."

Feldstein's views on structural unemployment suggest the same tendency to understate the magnitude of the problem and the lack of sound and acceptable policy prescriptions evident in his comments on unemployment generally. Senator Riegle asked Feldstein about youth unemployment:

> You have concluded in past studies of youth unemployment that the problem is concentrated in a relatively small group of disadvantaged workers whose low productivity prevents employers from hiring them at the minimum wage. If the problem is concentrated in a relatively small group, how do you explain the Federal Reserve Board's Mid-Year Monetary Policy Report figure that "black male teenagers expe-

rienced an unemployment rate of nearly 60 percent in June 1982"?

Feldstein replied:

> Unemployed black male teenagers are clearly a disadvantaged group. The vast majority of teenagers are either students, or working, or both. The unemployed non-students constitute a small portion of all teenagers. The high unemployment rate in any subgroup reflects the exclusion of the out-of-the-labor-force students from the denominator.

Elsewhere Feldstein has called attention to changes which may reduce the measured rate of unemployment, but fail to address the plight of the unemployed.

> I think we will see a variety of small changes in market incentives which will allow the labor markets to be slack without registering 8½, 9, 9½ percent unemployment rates. [A] very subtle change that occurred October 1, [1981] was the sharp reduction in long term unemployment insurance benefits, reducing from 39 to 26 weeks. A lot of people who were previously counted as unemployed will not be counted as unemployed now. Some of them will go back and find jobs. Some of them will drop out of the labor force. They won't show up in the official statistics as unemployed.

SOCIAL SECURITY

Feldstein has targeted Social Security for budget cuts.

> Where will these budget cuts occur? Revenue sharing that transfers money through Washington back to States and localities. In federal matching programs that distort local decision making. The Medicare and Medicaid programs that inflate the cost of medical care for everyone. And a variety of welfare type programs that provide inappropriate benefits to middle income families for such things as school lunch subsidies and food stamps and so on. And although the Administration's poorly designed proposal to reduce Social Security benefits for new retirees has temporarily made Social Security a politically hypersensitive taboo area, I believe that a way will be found to slow the growth of Social Security, thereby providing substantial reductions in future government outlays.

Feldstein has advocated "an immediate start to slowing the growth of benefits." Testifying at a Joint Economic Committee hearing on Social Security last September, he said that "the proposals for doing so have generally been far too timid." His recommendation is entirely consistent with his view that we have "a Social Security program that makes saving virtually unnecessary to the majority of the population."

We do not agree that Social Security benefits are so generous that most people need not save for retirement. Many retirees, in fact, find Social Security benefits so meager that they are forced to return to work. We wonder whether the nominee is thoroughly familiar with the practical impact of his proposals. He was asked by Senator Riegle:

> Do you know, offhand, what the average person on Social Security would be receiving or what the median benefit level would be for a person now collecting Social Security benefits under the system?

Dr. Feldstein replied: "No, I do not know that number offhand."

HOUSING

Feldstein has described (and supported) the Administration's strategy as "a coordinated mix designed to twist the composition of spending away from housing, away from consumer durables, and into plant and equipment." He has said that "As a nation we are overhoused." He has said that he believes "housing is going to continue to be in trouble" and that as far as he is concerned, "that's all good news from my point of view, but it doesn't exactly lead to a buoyant economy."

We find these statements astonishing in view of the fact that more than 41 million people will reach their 30's in this decade, creating an unprecedented increase in the number of potential first-time homebuyers. An addition of 13 million persons to the 35 to 64 age group will keep demand high in the "buy-up" market as well.

We view the fact that the housing industry is producing at the lowest level since the 1940's as bad news, not good news, for the U.S. economy. We fear that continuation of the depression in home-building will prevent many Americans from realizing their dream of home ownership.

The "baby boom" generation may be unable to afford the housing which is available, if the Administration's policies continue. "Creative financing" assumes that the homebuyer's income rises over time, but the National Journal estimates that one of the central consequences of the Reagan Administration's policies is that: "Income in the United States will be distributed more unevenly than before between the rich and the poor." Families at the bottom one-fifth of the income scale will receive lower average incomes and a smaller share of the total national income. Only the rich will gain substantially. With declining or fixed income levels, millions of Americans could find themselves underhoused and over-borrowed, if the policies advocated by Dr. Feldstein continue.

The National Association of Homebuilders testified before the Committee on September 22, 1982 in opposition to the Feldstein nomination. NAHB President Fred Napolitano said he was deeply troubled by Feldstein's remarks: "I feel that these views are so anti-housing that they would impair Dr. Feldstein's ability to provide advice to the President in the critical area of housing and economic policy."

VIEWS ON OTHER ECONOMIC PROGRAMS

Feldstein's oral testimony and written submissions to the Committee were not forthcoming with respect to his views on many economic policies and programs. He was asked about Federal assistance to State and local governments for education, community development, and job training, and about the Government's role in housing, mass

transportation, and urban development. He replied: "I do not currently have views on [these] subjects.

The nominee's statements raise serious doubts about his ability to relate theoretical economics to real economic conditions and specific economic programs. The recurrent theme in Feldstein's views is the necessity for enduring a painful economic period in the hope of some eventual improvement. He has said:

> Unemployment must rise, industries must suffer, profits decline, and the current beneficiaries of government programs must feel the effects of reduced government spending.

We find this perspective too callous and shortsighted to be an acceptable approach to economic recovery.

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